

LOESS HILLS AREA EDUCATION AGENCY 13

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2006

CONTENTS

OFFICIALS		1
AREA SERVED		2
INDEPENDENT AUDITOR'S REPORT		3-4
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)		5-12
BASIC FINANCIAL STATEMENTS	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	13-14
Statement of Activities	B	15
Governmental Fund Financial Statements:		
Balance Sheet	C	16
Reconciliation of the Balance Sheet –		
Governmental Funds to the Statement of Net Assets	D	17
Statement of Revenues, Expenditures and Changes in		
Fund Balances – Governmental Funds	E	18
Reconciliation of the Statement of Revenues,		
Expenditures and Changes in Fund Balances –		
Governmental Funds to the Statement of Activities	F	19
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	20
Statement of Revenues, Expenses and Changes in Net Assets	H	21
Statement of Cash Flows	I	22
Notes to Financial Statements		23-32
REQUIRED SUPPLEMENTARY INFORMATION		
Statement of Revenues, Expenditures/Expenses and		
Changes in Balances – Budget and Actual –		
All Governmental Funds and Proprietary Fund		33
Note to Required Supplementary Information – Budgetary Reporting		34
SUPPLEMENTAL SCHEDULES	<u>Schedule</u>	
Revenue by Source – All Governmental Fund Types,		
for the Last Four Years	1	35
Expenditures by Function – All Governmental Fund Types,		
for the Last Four Years	2	36
Changes in Assets and Liabilities –		
Fiduciary Fund Type – Agency Fund	3	37
Department of Public Health Grants	4	38
Department of Human Services Grants	5	39

CONTENTS
(Continued)

SINGLE AUDIT REPORTS AND RELATED SCHEDULE	<u>Schedule</u>	
Supplementary Schedule of Expenditures of Federal Awards	6	40-41
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS		42-43
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133		44-45
SCHEDULE OF FINDINGS AND QUESTIONED COSTS		46-47

LOESS HILLS AREA EDUCATION AGENCY 13

OFFICIALS
June 30, 2006

<i>NAME</i>	<i>TITLE</i>	<i>TERM EXPIRES</i>
Board of Directors		
Karen Thomsen	Member	2008
Kenneth Lee	Member	2006
Randy Brown	Member	2007
Richard Schenck	Member	2008
Nancy Coziahr	Member	2007
Martin Pennock	Vice Chairperson	2006
Marland Gammon	Member	2007
Kenneth Peterson	Member	2008
Charles Watson	Chairperson	2006
Agency		
Glenn Grove	Administrator	Indefinite
Linda Perdue	Board Secretary/ Administrative Assistant	Indefinite
Emily Nelson	Board Treasurer/Director, Administrative Services	Indefinite

LOESS HILLS AREA EDUCATION AGENCY 13

AREA SERVED

June 30, 2006

<i>COUNTY</i>	<i>COMMUNITY SCHOOL DISTRICT</i>	<i>INDEPENDENT SCHOOL</i>
Cass	Anita Atlantic C & M Griswold	
Fremont	Farragut Fremont-Mills Hamburg Sidney	
Harrison	Boyer Valley Logan-Magnolia Missouri Valley West Harrison Woodbine	St. Patrick's School
Mills	Glenwood Malvern Nishna Valley	
Page	Clarinda Essex Shenandoah South Page	Clarinda Lutheran Schools
Pottawattamie	A-H-S-T Council Bluffs Lewis Central Riverside Treynor Tri-Center Underwood Walnut	Loess Hills Christian School Council Bluffs Catholic Schools St. Joseph's Element- ary School
Shelby	Elk Horn-Kimballton Harlan Irwin-Kirkman/Manilla	St. Michael's Center St. Joseph's Center St. Mary's Center



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Loess Hills Area Education Agency 13
Council Bluffs, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Loess Hills Area Education Agency 13 (the "Agency") as of and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements listed in the table of contents. These financial statements are the responsibility of Agency management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Loess Hills Area Education Agency 13 at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 10, 2006, on our consideration of Loess Hills Area Education Agency 13's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standard's Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Loess Hills Area Education Agency 13's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schnurr & Company, LLP

Fort Dodge, Iowa
August 10, 2006

LOESS HILLS AREA EDUCATION AGENCY 13

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Loess Hills Area Education Agency 13 (the "Agency") provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$20,677,003 in fiscal year 2005 to \$21,805,818 in fiscal year 2006, while General Fund expenditures increased from \$20,791,814 in fiscal year 2005 to \$21,855,293 in fiscal year 2006. This resulted in a decrease in the Agency's General Fund balance from \$831,033 in fiscal year 2005 to \$793,778 in fiscal year 2006, a 4.5 % decrease from the prior year.
- The increase in General Fund revenues was attributable predominately to 1) an increase in federal grant revenue for IDEA Part B programs and federal grant pass-through dollars for local school districts, 2) state aid and property tax revenues, and 3) revenues generated for local projects. The increase in expenditures was due primarily to 1) federal grant funds passed through the Agency to local school districts, 2) increases in local projects, and 3) general increases throughout Agency programs. The General Fund balance decreased because expenditures exceeded revenue and caused the Unreserved Fund Balance to decline.
- Senate File 453 of the 2003 Iowa General Assembly temporarily reduced controlled funding for the AEAs by \$10 million dollars. This reduction continued into the 2005/06 fiscal year. The Agency's portion of this reduction is \$624,848 and was offset by containment of expenses. This action has impacted the Agency's ability to provide services to schools.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the government's financial activities.
- The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of the Agency as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

REPORTING THE AGENCY'S FINANCIAL ACTIVITIES (Continued)

Government-Wide Financial Statements

The Government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the Agency's net assets and how they have changed. Net assets – the difference between the Agency's assets and liabilities – are one way to measure the Agency's financial health or position. Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the Government-wide financial statements, the Agency's activities are divided into two categories:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services, and administration. Property tax, federal grants and state aid finance most of these activities.
- *Business-type activities:* The Agency charges fees for vending machine operations.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show that it is properly using certain revenues, such as federal grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

REPORTING THE AGENCY'S FINANCIAL ACTIVITIES (Continued)

Fund Financial Statements (continued)

The Agency has two kinds of funds:

- *Governmental Funds* account for most of the Agency's basic services. These funds focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency's governmental funds include the General Fund and the Special Revenue Fund.

The required governmental funds financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- *Proprietary Funds* account for services for which the Agency charges a fee. Proprietary funds are reported in the same way as the Government-wide statements. The Agency's enterprise fund, one type of proprietary fund, is the same as its business-type activities, but provides more detail and additional information, such as cash flows. The Agency currently has one enterprise fund, which includes vending machine operations.

The required proprietary funds financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

A summary reconciliation between the Government-wide financial statements and the fund financial statements follows the fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The Agency's net assets at the end of fiscal year 2006 totaled approximately \$2.7 million. This compared to approximately \$2.7 million at the end of fiscal year 2005. The analysis that follows provides a summary of the Agency's net assets at June 30, 2006 for the governmental and business-type activities.

The Agency's combined net assets for fiscal year 2006 decreased by approximately .2% or \$5 from fiscal year 2005, a minimal decline from the fiscal year ended June 30, 2005.

Condensed Statement of Net Assets (Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 7,000	\$ 6,889	\$ 10	\$ 12	\$ 7,010	\$ 6,901
Capital assets	2,198	2,275	-	-	2,198	2,275
Total assets	9,198	9,164	10	12	9,208	9,176
Long-term obligations	260	370	-	-	260	370
Other liabilities	6,207	6,058	1	1	6,208	6,059
Total liabilities	6,467	6,428	1	1	6,468	6,429
Net assets:						
Invested in capital assets, net of debt	2,198	2,275	-	-	2,198	2,275
Restricted	163	171	-	-	163	171
Unrestricted	370	290	9	11	379	301
Total net assets	\$ 2,731	\$ 2,736	\$ 9	\$ 11	\$ 2,740	\$ 2,747

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)**

The following analysis shows the changes in net assets for the year ended June 30, 2006:

Changes in Net Assets (Expressed in Thousands)						
	Governmental Activities		Business-Type Activities		Total	
	Year Ended June 30,		Year Ended June 30,		Year Ended June 30,	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for service	\$ 1,032	\$ 1,135	\$ 7	\$ 8	\$ 1,039	\$ 1,143
Operating grants and contributions	11,829	10,952	-	-	11,829	10,952
General revenues:						
Property taxes	4,216	4,158	-	-	4,216	4,158
State aid	4,728	4,519	-	-	4,728	4,519
Juvenile home reimbursement	412	545	-	-	412	545
Unrestricted investment earnings	199	123	-	-	199	123
Total revenues	22,416	21,432	7	8	22,423	21,440
Program expenses:						
Instruction	4,022	4,458	-	-	4,022	4,458
Student support services	7,720	7,972	-	-	7,720	7,972
Instructional staff support services	3,693	3,856	-	-	3,693	3,856
General administration	2,527	1,526	-	-	2,527	1,526
Business administration	644	696	-	-	644	696
Plant operations and maintenance	739	575	-	-	739	575
Central and other support services	1,386	942	-	-	1,386	942
Pass Through to LEAs	1,690	1,598	-	-	1,690	1,598
Non-instructional programs	-	-	9	9	9	9
Total program expenses	22,421	21,623	9	9	22,430	21,632

(Continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

	Changes in Net Assets (Continued) (Expressed in Thousands)					
	Governmental Activities		Business-Type Activities		Total	
	Year Ended June 30,		Year Ended June 30,		Year Ended June 30,	
	2006	2005	2006	2005	2006	2005
Total expenses	\$ 22,421	\$ 21,623	\$ 9	\$ 9	\$ 22,430	\$ 21,632
Other financing (uses):						
Reversion to						
State Treasurer	-	-	-	-	-	-
Total expenses and other financing uses	22,421	21,623	9	9	22,430	21,632
(Decrease) in net assets	(5)	(191)	(2)	(1)	(7)	(192)
Net assets beginning of year	2,736	2,927	11	12	2,747	2,939
Net assets end of year	\$ 2,731	\$ 2,736	\$ 9	\$ 11	\$ 2,740	\$ 2,747

Operating grants and contributions from local, state and federal sources account for 57.4% of the total governmental activities revenue while general revenues account for 42.6%. The Agency's expenses primarily relate to instruction and support services, which account for 68.8% of the total governmental activities expenses. This percentage has decreased from 2004/05 primarily due to changes in coding structure.

Governmental Activities

Revenues for governmental activities were \$22,416,399 and expenses were \$22,421,737. It was a tight budget year. Net Capital Assets and Restricted net assets both declined. However, Unrestricted Net Assets showed a minimal increase.

Business-Type Activities

Revenues of the Agency's business-type activities were \$7,333 and expenses were \$8,574. The Agency's business-type activities are vending machines operations. The reduction in balance was planned. Revenues are from funds received from vending machine sales. Expenses are for payment of items purchased for resale in vending machines.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INDIVIDUAL FUND ANALYSIS

As previously noted, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of \$793,778, which is \$37,255 below last year's ending fund balances of \$831,033. The primary reason for this decrease in combined fund balances in fiscal year 2006 was due to expenditures exceeding revenues and a resulting decline in the Unreserved Fund Balance.

Governmental Fund Highlights

- The Agency's decreasing General Fund financial position is due to a reduction of the unreserved fund balance. The Agency was required to use carryover unreserved fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$831,033 to \$793,778 due to a reduction of the unreserved fund balance.

Proprietary Fund Highlights

- Proprietary Fund net assets decreased from \$10,642 at June 30, 2005 to \$9,401 at June 30, 2006, representing a decrease of approximately 11.7%. The Agency has planned to reduce this balance through vending machine operations.

BUDGETARY HIGHLIGHTS

The Agency's Board of Directors annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund type level. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board. Over the course of the year, the Agency amended its annual operating budget one time to reflect additional revenue and expenditures associated with new grants and other information such as salary increases for staff, which were not available when the original budget was adopted. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the Agency had invested \$2,197,509, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, a media collection, vehicles and copy machines. This is a net decrease of approximately \$77,906 from last year. This year's decrease was primarily due to depreciation.

The Agency had depreciation expense of \$315,403 in fiscal year 2006 and total accumulated depreciation of \$2,441,777 at June 30, 2006. More detailed information about capital assets is available in Note 3 to the financial statements.

Long-term Debt

At June 30, 2006, the Agency had \$260,364 in long-term liabilities outstanding compared to \$370,187 at the end of fiscal year 2005. More detailed information about the Agency's long-term liabilities is available in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the Agency was aware of several existing circumstances that could significantly affect its financial health in the future:

- The Agency has experienced an annual decrease in the number of students enrolled in local districts for the past several years. That decrease is expected to continue, and decreased enrollment means decreased funding from the state.
- The 2003 Legislature reduced the Agency's fiscal year 2003/04 state aid by \$624,848 and also imposed a \$666,285 fund balance reduction. The 2004 and 2005 Legislatures extended the \$624,848 reduction to fiscal years 2004/05 and 2005/06. While a portion of the reduction has been restored for 2006/07, these actions have impacted the Agency's ability to provide services to schools in 2005/06 and will continue to do so in future years.
- The Agency has been notified to expect little to no increase in Federal IDEA funding for the immediate future.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Administrative Services, Loess Hills Area Education Agency 13, PO Box 1109, Council Bluffs, Iowa 51502.

LOESS HILLS AREA EDUCATION AGENCY 13

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	\$ 1,751,341	\$ 9,659	\$ 1,761,000
Unamortized Premium on Investments	3,210	-	3,210
Receivables:			
Accounts	73,509	-	73,509
State aid	273,283	-	273,283
Federal	1,162,381	-	1,162,381
Other	567,545	-	567,545
Prepaid expenses	9,076	-	9,076
Inventories	34,725	735	35,460
Restricted ISCAP assets:			
Investments	3,108,583	-	3,108,583
Accrued interest receivable	16,985	-	16,985
Capital assets, net of accumulated depreciation	2,197,509	-	2,197,509
Total assets	9,198,147	10,394	9,208,541
Liabilities			
Intergovernmental payable	87,388	-	87,388
ISCAP warrants payable	3,109,000	-	3,109,000
ISCAP accrued interest payable	14,689	-	14,689
Accounts payable	1,013,640	993	1,014,633
Accrued payroll	1,279,743	-	1,279,743
Other liabilities	29,962	-	29,962
Accrued compensated absences	95,053	-	95,053
Deferred revenue:			
Federal	180,883	-	180,883
Other	289,796	-	289,796
Long-term liabilities:			
Portion due or payable within one year:			
Early retirement obligation	106,706	-	106,706
Portion due or payable after one year:			
Early retirement obligation	260,364	-	260,364
Total liabilities	6,467,224	993	6,468,217

(Continued on next page)

LOESS HILLS AREA EDUCATION AGENCY 13**Exhibit A
(Continued)****STATEMENT OF NET ASSETS****June 30, 2006**

	Governmental Activities	Business-Type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	\$ 2,197,509	\$ -	\$ 2,197,509
Restricted for:			
Technology	226	-	226
Media materials	119,086	-	119,086
Special education instruction	42,252	-	42,252
Categorical Aid Carryover	1,766	-	1,766
Unrestricted	370,084	9,401	379,485
Total net assets	2,730,923	9,401	2,740,324
 Total liabilities and net assets	 \$ 9,198,147	 \$ 10,394	 \$ 9,208,541

See Notes to Financial Statements.

LOESS HILLS AREA EDUCATION AGENCY 13

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Functions/Programs:			
Governmental Activities:			
Instruction	\$ 4,022,119	\$ 269,524	\$ 2,954,509
Student support services	7,719,929	374,128	4,075,329
Instructional staff support services	3,693,222	322,249	1,366,974
General administration	2,526,969	-	1,116,122
Business administration	644,001	66,405	-
Plant operations and maintenance	738,614	-	-
Central and other support services	1,386,482	-	626,167
Pass through to LEAs	1,690,401	-	1,690,401
Total governmental activities	22,421,737	1,032,306	11,829,502
Business-type Activities			
Non-instructional programs			
Enterprise fund	8,574	7,333	
Total business-type activities	8,574	7,333	-
Total	\$ 22,430,311	\$ 1,039,639	\$ 11,829,502

General revenues:

Property taxes

State aid

Juvenile home reimbursement

Unrestricted investment earnings

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

See Notes to Financial Statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (798,086)	\$ -	\$ (798,086)
(3,270,472)	-	(3,270,472)
(2,003,999)	-	(2,003,999)
(1,410,847)	-	(1,410,847)
(577,596)	-	(577,596)
(738,614)	-	(738,614)
(760,315)	-	(760,315)
-	-	-
(9,559,929)	-	(9,559,929)
-	(1,241)	(1,241)
-	(1,241)	(1,241)
(9,559,929)	(1,241)	(9,561,170)
4,215,636	-	4,215,636
4,727,961	-	4,727,961
412,405	-	412,405
198,589	-	198,589
9,554,591	-	9,554,591
(5,338)	(1,241)	(6,579)
2,736,261	10,642	2,746,903
\$ 2,730,923	\$ 9,401	\$ 2,740,324

See Notes to Financial Statements.

Exhibit C

	General	Special Revenue	Total
Liabilities and Fund Balances			
Intergovernmental payable	\$ 51	\$ 87,337	\$ 87,388
ISCAP warrants payable	3,109,000	-	3,109,000
ISCAP accrued interest payable	14,689	-	14,689
Accounts payable	1,013,546	94	1,013,640
Accrued payroll	1,230,551	49,192	1,279,743
Accrued compensated absences	95,053	-	95,053
Other liabilities	136,668	-	136,668
Due to other funds	93,771	-	93,771
Deferred revenue:			
Federal	180,883	-	180,883
Other	289,796	-	289,796
Total liabilities	6,164,008	136,623	6,300,631
Fund balances:			
Reserved for:			
Technology	226	-	226
Categorical Aid Carryover	1,766	-	1,766
Inventories and prepaid expenses	43,801	-	43,801
Media materials	119,086	-	119,086
Unreserved:			
Designated for subsequent year's expenditures	23,399	-	23,399
Undesignated	605,500	-	605,500
Total fund balances	793,778	-	793,778
Total liabilities and fund balances	\$ 6,957,786	\$ 136,623	\$ 7,094,409

**RECONCILIATION OF THE BALANCE SHEET--
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2006**

Total governmental fund balances (page 16)	\$ 793,778
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$4,639,286 and the accumulated depreciation is \$2,441,777.	2,197,509
Long-term liabilities, including early retirement obligation, are not due and payable in the current period and, therefore, are not reported in the government funds.	<u>(260,364)</u>
Net assets of governmental activities (page 14)	<u><u>\$ 2,730,923</u></u>

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES -- GOVERNMENTAL FUNDS
Year Ended June 30, 2006**

	General	Special Revenue	Total
Revenues:			
Local sources	\$ 6,698,512	\$ 185,432	\$ 6,883,944
State sources	5,825,441	425,149	6,250,590
Federal sources	9,281,865	-	9,281,865
Total revenues	21,805,818	610,581	22,416,399
Expenditures:			
Current:			
Instruction	3,469,811	568,163	4,037,974
Student support services	7,788,572	1,240	7,789,812
Instructional staff support services	3,670,284	-	3,670,284
General administration	2,516,316	26,396	2,542,712
Business administration	641,391	-	641,391
Plant operations and maintenance	698,930	-	698,930
Central and other support services	1,379,588	2,562	1,382,150
Pass through to LEAs	1,690,401	-	1,690,401
Total expenditures	21,855,293	598,361	22,453,654
Excess (deficiency) of revenues over (under) expenditures	(49,475)	12,220	(37,255)
Other financing sources (uses):			
Transfers in	12,220	-	12,220
Transfers out	-	(12,220)	(12,220)
Total other financing sources (uses)	12,220	(12,220)	-
Deficiency of revenues and other financing (uses) under expenditures	(37,255)	-	(37,255)
Fund balance, beginning of year	831,033	-	831,033
Fund balance, end of year	\$ 793,778	\$ -	\$ 793,778

See Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES --
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2006**

Net change in fund balances - Total governmental funds (page 18) \$ (37,255)

*Amounts reported for governmental activities in the
Statement of Activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Capital outlay exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$ 240,094	
Depreciation expense (Includes \$2,597 undepreciated amount on vehicle disposal (\$315,403 + \$2,597))	(318,000)	(77,906)

The accrual for the long-term portion of the early retirement obligation is not due in the current period and, therefore, is not reported in the governmental fund. However, such accrual is recorded as an expense in governmental activities. The early retirement obligation decreased in the current year as follows:

Early retirement obligation year ended 6/30/05	370,187	
Early retirement obligation year ended 6/30/06	(260,364)	109,823

Net change in assets of governmental activities (page 15) \$ (5,338)

See Notes to Financial Statements.

LOESS HILLS AREA EDUCATION AGENCY 13**Exhibit G****STATEMENT OF NET ASSETS - PROPRIETARY FUND**
Year Ended June 30, 2006

	Enterprise Fund
Assets	
Cash and cash equivalents	\$ 9,659
Inventories	735
Total assets	10,394
Liabilities	
Accounts payable	993
Net Assets	
Unrestricted	<u><u>\$ 9,401</u></u>

See Notes to Financial Statements.

LOESS HILLS AREA EDUCATION AGENCY 13**Exhibit H****STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
PROPRIETARY FUND
Year Ended June 30, 2006**

	<u>Enterprise Fund</u>
Operating revenues:	
Charges for service	\$ 7,333
Operating expenses:	
Cost of merchandise sold	<u>8,574</u>
Net (loss)	(1,241)
Net assets, beginning of year	<u>10,642</u>
Net assets, end of year	<u><u>\$ 9,401</u></u>

See Notes to Financial Statements.

LOESS HILLS AREA EDUCATION AGENCY 13**Exhibit I****STATEMENT OF CASH FLOWS - PROPRIETARY FUND
Year Ended June 30, 2006**

	Enterprise Fund
Cash Flows from Operating Activities	
Cash received from users	\$ 8,205
Cash paid to suppliers	(9,544)
Net cash (used in) operating activities	(1,339)
Cash, beginning of year	10,998
Cash, end of year	\$ 9,659
Reconciliation of operating (loss) to net cash (used in) operating activities:	
Operating (loss)	\$ (1,241)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:	
Increase in inventories	(300)
Increase in accounts payable	202
Net cash (used in) operating activities	\$ (1,339)

See Notes to Financial Statements.

LOESS HILLS AREA EDUCATION AGENCY 13

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Loess Hills Area Education Agency 13 (the Agency) is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 31 school districts and private schools in a seven-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

The Agency's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

Reporting Entity:

For financial reporting purposes, the Agency has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. The Agency has no component units which meet the Governmental Accounting Standards Board (GASB) criteria.

Basis of Presentation:

Government-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets presents the Agency's nonfiduciary assets and liabilities, with the differences reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (continued):

Government-wide Financial Statements (continued) – The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental funds:

- The General Fund is the general operating fund of the Agency. All general revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instruction support and other costs.
- The Special Revenue Fund is used to account for programs where the Agency employs teachers to provide instruction to juvenile home program students and to special education pupils. The actual costs of providing instructional services to the pupils are reimbursed by the State of Iowa for the juvenile home program and are billed to the individual school districts for special education instruction.

The Agency reports the following major proprietary fund:

- The Agency's proprietary fund is the Enterprise Fund. This fund is used to account for activities that are performed as a service to staff and consists primarily of vending machine operations.

The Agency also serves as custodian of certain funds on behalf of other organizations. Such amounts are maintained in fiduciary funds which, because they are not direct assets or liabilities of the Agency, are not reported in the accompanying financial statements.

Measurement Focus and Basis of Accounting:

The Government-wide financial statements and the proprietary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Government fund expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences, are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Proprietary fund of the Agency applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Agency's enterprise fund is charged to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities and Fund Equity:

Cash, Pooled Investments and Cash Equivalents – Cash includes amounts in demand deposits and money market funds. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust (ISJIT) which is valued at amortized cost which approximates fair value.

All short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Inventories – Inventories are stated at cost using the first-in, first-out (FIFO) method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption. The amounts on hand at the financial statement date are reflected in the balance sheet as an asset.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (continued):

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities column in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 5,000
Buildings	20,000
Improvements other than buildings	20,000
Furniture and equipment	5,000
Media collection	5,000

Additionally, the entire media collection will be considered in aggregate.

Property, furniture and equipment are depreciated using the straight-line method of depreciation over the following useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50
Improvements other than buildings	20-50
Furniture and equipment	5
Media collection	5-15

Accrued Payroll and Related Expenses - Payroll and related expenses for certified staff and other employees with annual employment contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Deferred revenue represents an excess of cash advances by the funding sources over accrued expenditures at year end.

Accrued Compensated Absences - Agency employees accumulate a limited amount of earned-but-unused vacation and sick leave hours for subsequent use, or in the case of vacation leave, for payment upon resignation, retirement, death or termination. The liability for compensated absences for accrued vacation has been computed based on current rates of pay in effect at June 30, 2006. Agency policy requires that the carryover of accrued vacation leave must be used by June 30 of the ensuing fiscal year, and has therefore recorded the entire amount as a current liability in the general fund.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (continued):

Long-term Obligation – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

NOTE 2. CASH AND POOLED INVESTMENTS

The Agency's deposits in banks at June 30, 2006 were entirely covered by Federal depository insurance or by the State sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers' acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Agency has investments in the Iowa Schools Joint Investment Trust Diversified Portfolio that are valued at an amortized cost of \$1,339,313 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk - The Agency's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Agency.

Credit risk - The investment in the Iowa Schools Joint Investment Trust is rated AAA by Moody's Investors Service.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 20,394	\$ -	\$ -	\$ 20,394
Total capital assets, not being depreciated	20,394	-	-	20,394
Capital assets being depreciated:				
Improvements other than buildings	11,074	-	-	11,074
Buildings and improvements	1,471,241	-	-	1,471,241
Furniture and equipment	503,559	25,698	59,103	470,154
Media collection	2,730,358	198,865	385,652	2,543,571
Vehicles	135,354	15,531	28,033	122,852
Total capital assets, being depreciated	4,851,586	240,094	472,788	4,618,892
Less accumulated depreciation for:				
Improvements other than buildings	11,074	-	-	11,074
Buildings and improvements	661,604	36,423	-	698,027
Furniture and equipment	442,034	32,076	59,103	415,007
Media collection	1,384,198	232,126	385,652	1,230,672
Vehicles	97,655	14,778	25,436	86,997
Total accumulated depreciation	2,596,565	315,403	470,191	2,441,777
Total capital asset being depreciated, net	2,255,021	(75,309)	2,597	2,177,115
Governmental activities - capital assets, net	\$ 2,275,415	\$ (75,309)	\$ 2,597	\$ 2,197,509

NOTES TO FINANCIAL STATEMENTS

NOTE 3. CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions of the Agency as follows:

Governmental activities:	
Student support services	\$ -
Instructional staff support services	236,781
General administration	10,589
Business administration	2,610
Plant operations and maintenance	52,618
Central and other support services	12,805
	<hr/>
Total governmental activities depreciation expense	\$ 315,403

NOTE 4. CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year
Early retirement obligation	<u>\$ 476,003</u>	<u>\$ 27,036</u>	<u>\$ 135,969</u>	<u>\$ 367,070</u>
Portion due within one year				<u>106,706</u>
Portion due after one year				<u>\$ 260,364</u>

Early Retirement Obligation – Before fiscal year 2005/06 the Agency had a Board policy which allowed Agency employees who elect early retirement to be eligible to receive health insurance through the Agency for the lesser of five years, or when the retiree became eligible for Medicare. A liability has been recorded in the governmental funds representing the Agency's commitment to fund the health insurance premiums for these individuals. This liability has been computed based on actuarially based rates which estimate that retiree health care costs would increase 11% in fiscal 2008, decreasing gradually to 4.75% in fiscal 2015 and thereafter. In the Government-wide financial statements, the long-term early retirement obligation is reported as a liability in the governmental activities column in the statement of net assets. The Agency no longer has an Early Retirement policy.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. OPERATING LEASES

The Agency has leased various facilities within the area and also has a rental agreement for a copy machine. These leases have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire between June 30, 2006 and June 30, 2010. Certain leases are renewable for additional periods and most are noncancelable. Certain leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases which have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2006.

Year Ending June 30,	Total
2007	\$ 95,354
2008	40,956
2009	40,956
2010	28,260
2011	-
Total	\$ 205,526

The total rental expenditures for the year ended June 30, 2006 for all operating leases were \$117,590.

NOTE 6. IOWA SCHOOLS CASH ANTICIPATION PROGRAM (ISCAP)

The Agency participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each participating entity is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and are provided monthly statements regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is trustee of the program. These accounts are reflected as restricted assets on the Statement of Net Assets and Balance Sheet. A summary of the Agency's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-2006A	6/28/2005	6/28/2006	\$ -	\$ -	\$ -	\$ -
2005-2006B	1/26/2006	1/26/2007	802,792	16,268	800,000	14,102
2006-2007A	6/30/05	6/28/06	2,305,791	717	2,309,000	587
			\$ 3,108,583	\$ 16,985	\$ 3,109,000	\$ 14,689

NOTES TO FINANCIAL STATEMENTS

NOTE 6. IOWA SCHOOLS CASH ANTICIPATION PROGRAM (ISCAP) (Continued)

The Agency pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the Agency must repay the outstanding withdrawal from its General Fund receipts. In addition, the Agency must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-2006A	\$ -	\$ 3,550,000	\$ 3,550,000	\$ -
2005-2006B	-	-	-	-
	\$ -	\$ 3,550,000	\$ 3,550,000	\$ -

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-2006A	4.00%	3.90%
2005-2006B	4.50%	4.77%
2006-2007A	4.50%	5.68%

The net interest earned or due from the series is recorded as a revenue or an expenditure at maturity.

NOTE 7. PENSION AND RETIREMENT BENEFITS

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Agency is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$624,098, \$608,604 and \$575,927, respectively, equal to the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years nor have there been any significant changes in coverage.

LOESS HILLS AREA EDUCATION AGENCY 13

REQUIRED SUPPLEMENTARY INFORMATION

LOESS HILLS AREA EDUCATION AGENCY 13

**STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND
CHANGES IN BALANCES -- BUDGET AND ACTUAL --**

ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND

Required Supplementary Information

Year Ended June 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Types Actual	Total Actual
Revenues:			
Local sources	\$ 6,883,944	\$ 7,333	\$ 6,891,277
State sources	6,250,590	-	6,250,590
Federal sources:	9,281,865	-	9,281,865
Total revenues	22,416,399	7,333	22,423,732
Expenditures/Expenses:			
Current:			
Instruction	4,037,974	-	4,037,974
Student support services	7,789,812	-	7,789,812
Instructional staff support services	3,670,284	-	3,670,284
General administration	2,542,712	-	2,542,712
Business administration	641,391	-	641,391
Plant operations and maintenance	698,930	-	698,930
Central and other support services	1,382,150	-	1,382,150
Pass through to LEAs	1,690,401	-	1,690,401
Non instructional programs	-	8,574	8,574
Total expenditures/expenses	22,453,654	8,574	22,462,228
Excess (deficiency) of revenues over (under) expenditures/expenses	(37,255)	(1,241)	(38,496)
Balance, beginning of year	831,033	10,642	841,675
Balance, end of year	\$ 793,778	\$ 9,401	\$ 803,179

See accompanying Independent Auditor's Report.

Budget		Final to Actual
Original	Final	Variance
\$ 7,522,289	\$ 8,320,873	\$ (1,429,596)
7,154,872	6,251,494	(904)
9,369,777	10,077,557	(795,692)
24,046,938	24,649,924	(2,226,192)

5,287,397	5,390,826	1,352,852
8,328,971	8,247,917	458,105
4,322,741	4,530,760	860,476
1,568,135	1,754,890	(787,822)
683,490	765,189	123,798
561,948	594,230	(104,700)
929,595	1,997,835	615,685
1,630,234	1,690,401	-
50,000	50,000	41,426
23,362,511	25,022,048	2,559,820

684,427	(372,124)	333,628
25,650	(229,991)	1,071,666
\$ 710,077	\$ (602,115)	\$ 1,405,294

LOESS HILLS AREA EDUCATION AGENCY 13
June 30, 2006

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

The Agency's Board of Directors annually prepares a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents function disbursements by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

OTHER SUPPLEMENTARY INFORMATION

REVENUE BY SOURCE - ALL GOVERNMENT FUND TYPES
For The Last Four Years

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Local Sources	\$ 6,883,944	\$ 6,731,548	\$ 6,431,556	\$ 5,328,358
State Aid	6,250,590	6,180,692	6,046,483	6,663,239
Federal Aid	9,281,865	8,520,157	7,782,212	6,008,960
Total	\$ 22,416,399	\$ 21,432,397	\$ 20,260,251	\$ 18,000,557

EXPENDITURES BY FUNCTION -- ALL GOVERNMENT FUND TYPES
For the Last Four Years

	Modified Accrual Basis			
	Years Ended June 30			
	2006	2005	2004	2003
Expenditures:				
Instruction	\$ 4,037,974	\$ 4,469,539	\$ 4,247,491	\$ 2,432,302
Student Support Staff	7,789,812	7,946,730	7,856,006	7,713,456
Instructional staff support services	3,670,284	3,866,982	3,582,830	3,445,227
General administration	2,542,712	1,477,435	1,485,552	1,516,959
Business administration	641,391	706,886	603,015	587,921
Plant operations and maintenance	698,930	529,432	546,341	522,646
Central and other support services	1,382,150	933,036	969,688	1,030,242
Pass through to LEAs	1,690,401	1,598,269	1,277,296	907,426
Subtotal	22,453,654	21,528,309	20,568,219	18,156,179
Other financing uses - Reversion to State Treasurer	-	-	-	666,285
Total	\$ 22,453,654	\$ 21,528,309	\$ 20,568,219	\$ 18,822,464

LOESS HILLS AREA EDUCATION AGENCY 13
Schedule 3
CHANGES IN ASSETS AND LIABILITIES --
FIDUCIARY FUND TYPE - AGENCY FUND
Year Ended June 30, 2006

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 852,381	\$ 2,004,079	\$ 2,279,507	\$ 576,953
Prepaid Expense	-	404	-	404
Other receivable	30,035	-	30,035	-
Total assets	\$ 882,416	\$ 2,004,483	\$ 2,309,542	\$ 577,357
Liabilities				
Accounts payable	\$ 26,946	\$ 2,266,474	\$ 2,293,284	\$ 136
Deposits held in custody for others/ deferred revenue	855,470	1,966,256	2,244,505	577,221
Total liabilities	\$ 882,416	\$ 4,232,730	\$ 4,537,789	\$ 577,357

LOESS HILLS AREA EDUCATION AGENCY 13**Schedule 4****DEPARTMENT OF PUBLIC HEALTH GRANTS
Year Ended June 30, 2006**

Comprehensive Substance Abuse Prevention	\$ 167,203
Youth Mentoring Program	45,963
State Incentive Grant	16,789
Drug & Violence Prevention	<u>52,010</u>
Total direct expenditures	281,965
Distribution of Delivery and Central Support Expenditures	5,879
Distribution of Administration and Plant Operations and Maintenance	<u>16,843</u>
Total expenditures	304,687
Phase II Funding	1,945
Funding received or due from Department of Public Health	<u>268,470</u>
Expenditures paid from Agency General Funds and Conference Revenues	<u><u>\$ 34,272</u></u>

LOESS HILLS AREA EDUCATION AGENCY 13**Schedule 5****DEPARTMENT OF HUMAN SERVICES GRANTS
Year Ended June 30, 2006**

School Based Supervision Programs:**Revenue:**

Juvenile Court Services	\$	67,903	
Juvenile Court Services Accrual at 6/30/06		101,643	
Local School District		204,629	
Total revenue			\$ 374,175

Expenditures

Direct expenditures	366,623	
Indirect cost	7,552	
Total expenditures		374,175
		\$ -

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Education of Handicapped Act (EHA) Part B: 94-142:			
Special Education - Grants to States (IDEA, Part 3) -			
Early Childhood Education for the Handicapped	84.027*	050613	\$ 4,799,802
Early Childhood Education for the Handicapped	84.027*	6KB2-13	1,690,401
Special Education - Preschool Grants (IDEA			
Preschool) - Section 619, Ages 3-5	84.173	05619-13	297,415
Special Education - Grants for Infants and Families			
with Disabilities - 94-142 Part C:			
IDEA, Part C, Infants and Toddlers	84.181	C05-13	244,160
Special Education - Grants to States (IDEA, Part 3) -			
Miscellaneous 94-142:			
Diagnostic Evaluation Program	84.027*	5K71-13	18,348
Supplemental Support Services	84.027*	4K72-13	214,227
Success 4	84.027*	4K75-13	22,296
Parent Educator Project	84.027*	57413	88,951
Para-Educator Project	84.027*	5K76-13	14,177
Employee Preparation Study	84.027*	51605	4,874
Instructional Decision Making	84.027*	5K79IDM-13	14,219
Learning Supports	84.027*	5K60-13	2,041
Dibbels Training	84.027*	33006	1,000
Model Schools and Successful Practices Network Initiative	84.027*	G-5K70-13	490,702
Every Child Reads 3 to 5	84.027*	G-5K27-13	3,766
Iowa Quality PreSchool Standards	84.027*	G6P13-13	6,434
English Language Learner Training/ESL Charac Ed	84.215	15906	1,600
IEP Training Project	84.323	5K77-13IEP	17,656
Reading First	84.357		28,284
Title 1 Part B Reading First	84.357	17906/14405	4,546
Central Reg Reading First Tech Assistance Center	84.357	48206	923
Title III ELL/LEP	84.365		31,259
Every Learner Inquires Initiative	84.367		1,426
Technology Literacy Challenge/E2T2	84.318		116,787
Evaluating State Education Technology Programs	84.318	57704	11,990
Received from the University of Iowa:			
Middle School Text Reader Project	84.027*		3,000
Received from U. S. Department of Education:			
Fund for the Improvement of Education			
Earmark Grant Awards	84.215K**		716,481
Total Department of Education			8,846,765

(Continued on next page)

LOESS HILLS AREA EDUCATION AGENCY 13

Schedule 6
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U. S. Department of Health and Human Services:			
Passed-Through Iowa Department of Public Health:			
Block Grants for Prevention and Treatment of			
Substance Abuse - Comprehensive Prevention	93.959	5886CPO9	\$ 147,981
State Incentive Grant	93.230	5885IP21	16,789
Drug and Violence Prevention	84.186B	5886DV04	52,010
Passed-Through Iowa Department of Human Services:			
Medical Assistance Program -			
Title 19 Medicaid Reimbursement			
Title 19 Medicaid Reimbursement	93.778		48,802
Part C Infants and Toddlers Reimbursement	93.778		41,007
Wraparound Services for Children with			
Serious Emotional Disabilities	93.958	BDPS-064	56,048
Received from U.S. Department of			
Health and Human Services:			
Drug Free Communities Support	93.276		72,463
Total Department of Health and Human Services			<u>435,100</u>
Total Expenditures of Federal Awards			<u>\$ 9,281,865</u>

* Total expenditures for CFDA Number 84.027 were \$7,374,238.

** Total expenditures for CFDA Number 84.215K were \$716,481.

Basis of Presentation – the Schedule of Expenditures of Federal Awards includes the federal grant activities of Loess Hills Area Education Agency 13 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Legal Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Loess Hills Area Education Agency 13
Council Bluffs, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Loess Hills Area Education Agency 13 (the "Agency"), as of and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated August 10, 2006. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Loess Hills Area Education Agency 13, and other parties to whom Loess Hills Area Education Agency 13 may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Loess Hills Area Education Agency 13 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnurr & Company, LLP

Fort Dodge, Iowa
August 10, 2006



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Board of Directors of
Loess Hills Area Education Agency 13
Council Bluffs, Iowa

Compliance

We have audited the compliance of Loess Hills Area Education Agency 13 (the "Agency") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Agency's major federal programs are identified in Part 1 of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Agency and other parties to whom the Agency may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Schnurr & Company, LLP

Fort Dodge, Iowa
August 10, 2006

LOESS HILLS AREA EDUCATION AGENCY 13

Schedule of Findings and Questioned Costs Year Ended June 30, 2006

Part I: Summary of Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No reportable conditions in internal control over compliance with requirements applicable to major federal award programs were disclosed by the audit.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings required to be reported by OMB Circular A-133, Section 510(a).
- (g) The major programs were:
 - CFDA Number 84.027 – Special Education – Grants to States
 - CFDA Number 84.215K – Fund for the Improvement of Education Earmark Grant Awards
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Loess Hills Area Education Agency 13 qualified as a low-risk auditee.

Part II: Financial Statement Findings Section:

None.

Part III: Findings and Questioned Costs For Federal Awards:

None.

LOESS HILLS AREA EDUCATION AGENCY 13

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2006

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-06 Budget: Expenditures during the year ended June 30, 2006 did not exceed the amounts budgeted.
- IV-B-06 Questionable Expenditures: No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-06 Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-D-06 Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.
- IV-E-06 Bond Coverage: Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- IV-F-06 Board Minutes: No transactions requiring Board approval were noted which had not been approved.
- IV-G-06 Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted.
- IV-H-06 Certified Annual Report: The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Loess Hills Area Education Agency 13 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnurr & Company, LLP

Fort Dodge, Iowa
August 10, 2006